



# **Sustainable Homeownership: Market and Policy Implications for Communities**



## **Acknowledgements**

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### **The Congressional Hispanic Caucus Institute**

For 30 years, The Congressional Hispanic Caucus Institute (CHCI), the nation's premier Hispanic leadership development and educational organization, has sought to develop the next generation of Latino leaders. Providing leadership development programs and educational services, CHCI promotes the growth of Latino youth as effective professionals and strong leaders.

A nonprofit, nonpartisan 501(c)(3) organization, CHCI's vision is an educated and civic-minded Latino community, whose members participate in local, state and federal policy decisions.

CHCI serves more than 500,000 students, parents and educators annually through its Web services, publications and programs, including those specifically targeted at increasing the rate of Latino homeownership.

### **HOGAR Program**

HOGAR, Spanish for "home," is a housing and financial literacy initiative that seeks to ensure Latinos share equally the American dream of homeownership by expanding financial literacy and opportunities for wealth creation.

HOGAR has three complimentary components: 1) a fellowship program that develops Latino leaders in the housing and finance fields, 2) community housing events that increase financial literacy and improve understanding about the mortgage process, and 3) research and policy

analyses addressing homeownership barriers faced by and existing opportunities available to Latinos.

For more information about the HOGAR Fellowship or to order HOGAR materials, please contact CHCI at 1-800-EXCEL-DC.

### **NeighborWorks<sup>®</sup> America and the NeighborWorks<sup>®</sup> Network**

Neighborhood Reinvestment Corporation, doing business as NeighborWorks<sup>®</sup> America, was established by an act of Congress in 1978 (Public Law 95-557). A primary objective of NeighborWorks<sup>®</sup> America is to increase the capacity of local, community-based organizations to revitalize their communities, particularly by expanding and improving housing opportunities. These local organizations, known as NeighborWorks<sup>®</sup> organizations, are independent, resident-led, nonprofit partnerships that include business leaders and government officials. Together they make up the NeighborWorks<sup>®</sup> network.

## EXECUTIVE SUMMARY

The Congressional Hispanic Caucus Institute (CHCI), in partnership with NeighborWorks® America, conducted a series of focus groups to gather information from Latino-serving institutions nationwide about best practices to prevent Latino foreclosure. The principal objective of this project was to identify the causes of foreclosure among Latinos and to present potential proactive solutions to the problem. Special emphasis was placed on identifying specific lending products and underwriting guidelines that best meet the needs of Latino borrowers.

Focus group participants consistently expressed the need for flexible loan underwriting and products to meet the unique needs of the Latino community, such as nonstandard means for determining income, alternative credit use, down-payment assistance and verified cash income. The tightening of credit in response to increased foreclosures threatens the availability of loan products that are particularly useful to Latino borrowers.

The abuse of flexible products, not the products themselves, was cited by participants as the cause of problems. Abusive practices mentioned included overstating income to qualify for a home rather than verifying undocumented earned income or placing borrowers in products whose future payments they cannot afford.

Among other circumstances, the unique needs of Latino borrowers are caused by cultural factors. Latino communities depend on social networks and referrals to gain information and often identify real estate agents as their first point of contact and trusted advisor for all matters relating to homeownership. The reliance in Latino communities on informal networks makes them more vulnerable to unethical and predatory behavior, and oftentimes means that the client does not get adequate or appropriate assistance. Trained housing counseling professionals can objectively meet the needs of the Latino borrower.

To ensure that the needs of Latino clients are met and the integrity of the homebuying industry is upheld, collaborative solutions to foreclosure must be sought. Partnership among housing counseling agencies and real estate agents, mortgage brokers and lenders is essential to support sustainable homeownership in Latino communities.

### Recommendations:

- Lenders should be encouraged to continue the use of flexible underwriting methods coupled with homeownership education provided by a trained professional.
- Leaders in the Latino housing community should facilitate communication between real estate professionals and housing counseling organizations to discuss how counseling can help homebuyers obtain and maintain homeownership.
- The development of a system that allows professionals and consumers to anonymously report unethical acts is necessary to protect consumers.

## INTRODUCTION

Like many Americans, Latinos<sup>1</sup> depend on homeownership to build and sustain wealth. While the Latino homeownership rate continues to lag nearly 20 percentage points behind that of the nation overall, Latinos have made great strides in recent years, with rates increasing from 42 percent in 1995 to nearly 50 percent by 2006.<sup>2</sup> This progress is made possible, in part, as a result of the increased availability of flexibility in lending products and underwriting guidelines.<sup>3</sup> In the wake of the recent financial crisis, the rising rate of foreclosures is of great concern to the Latino community. The rippled effects of financial loss, particularly the loss of a home, can threaten a family's financial security and undermine the strength of a community. The alarming increase in foreclosure rates underscores a mounting need for sustainable home financing and increased financial education.

As decision-makers react to the ongoing financial crisis, the proposed recommendations to eliminate or severely restrict lending products that provide underwriting flexibilities addressing the unique needs of the Latino communities will not only jeopardize existing homeowners affected by foreclosures, but also reduce opportunities for first-time homebuyers. As a result, the Latino community could begin to see the same decline in homeownership rates experienced among Black communities.

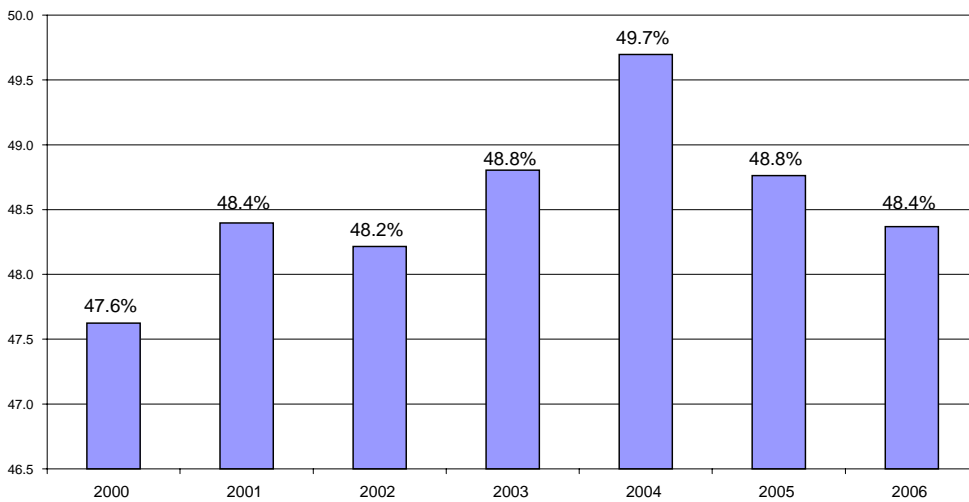
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<sup>1</sup> Hispanic and Latino are used interchangeably throughout this paper. The U.S. Census defines Hispanics and Latinos as those people who classify themselves as Mexican, Mexican American, Chicano, Puerto Rican or Cuban as well as Other/Spanish/Hispanic/Latino. People who identify their origin as Spanish, Hispanic, or Latino may be of any race.

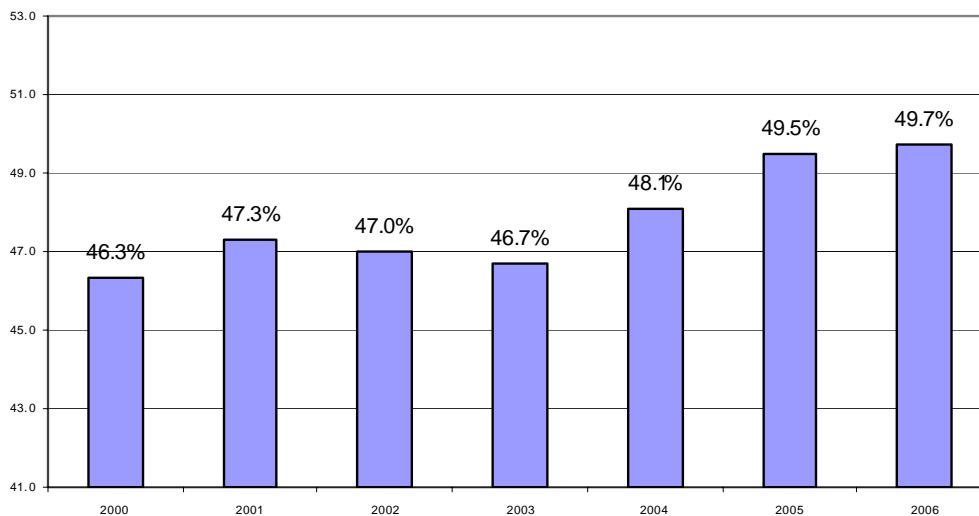
<sup>2</sup> Joint Center for Housing Studies. (2007). *State of the nation's housing, 2007*. Boston: Harvard University.

<sup>3</sup> Federal Reserve Bank of San Francisco. (2006, November 3). *Economic letter 2006-30, the rise in homeownership*. San Francisco, California: Federal Reserve Bank of San Francisco.

### Black Homeownership Rates, 2000-2006



### Hispanic Homeownership Rates, 2000-2006



In response to the current foreclosure crisis and the threat of tightening credit, CHCI, in partnership with NeighborWorks<sup>®</sup> America, conducted a series of focus groups with a variety of industry sectors to gather information from Latino-serving housing professionals nationwide

about best practices to prevent foreclosure. The principal objective of this project was to identify the causes of foreclosure among Latinos and to present potential proactive solutions to the problem. Special emphasis was placed on identifying specific lending products and underwriting guidelines that have been most frequently abused and those that best meet the needs of Latino borrowers.

## METHOD

From April 2007 through August 2007, CHCI and NeighborWorks® America conducted eight focus groups: Austin, Texas; Miami, Florida; Fairfax, Virginia; Denver, Colorado (2 groups); Phoenix, Arizona; Washington, D.C.; and Chicago, Illinois. These locations were strategically chosen as they all have both large Latino populations and high foreclosure rates.



Approximately 44 homeownership counselors and advocates and 67 real estate professionals, agents, lenders, mortgage brokers and mortgage loan originators participated in the focus groups. The focus group participants, all housing professionals, live and work in areas with high concentrations of Latinos and primarily serve Spanish-speaking clients.

<b>Attendees (Approx.)</b>	<b>Location</b>								<b>Total</b>
	Phoenix, Arizona	Chicago, Illinois	Miami, Florida	Northern Virginia	Washington, D.C. Metro	Austin, Texas	Colorado Session 1	Colorado Session 2	
Housing counselors/housing advocate	32	4	6	1				1	44
Real estate agents				8	5	7	8		28
Lenders			2	5	8	3	3	5	26
Title				2	2	2			6
New homes sales						2			2
Government employees						3		1	4
Other					1				1
<b>Total</b>	<b>32</b>	<b>4</b>	<b>8</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>11</b>	<b>7</b>	<b>111</b>

This diversity ensured that issues such as affordability, advocacy, financial education and lending product availability were addressed. The sessions were arranged with the assistance of partner organizations such as the League of United Latin American Citizens, the National Council of La Raza and the National Association of Hispanic Real Estate Professionals and were facilitated by CHCI and NeighborWorks® America. During each roundtable, participants were asked to provide their comments and opinions regarding the causes of, effects of and possible solutions to the problem of foreclosure. The three main areas of focus during the sessions were (1) lending products, (2) underwriting guidelines and (3) best practices for financial service professionals. Facilitators guided the discussions by asking participants a series of questions in order to promote dialogue. (Questions can be found in the Appendix.) Sessions were recorded and comments and findings are summarized.

## **BACKGROUND**

### **Foreclosures in the Latino Community**

Latinos are currently the largest minority in the United States. Recent studies estimate that the Latino community will grow at a rate three times faster than the general population<sup>4</sup> to make up almost 20 percent of household growth through 2015.<sup>5</sup> It is clear that Latinos will have a significant role in future demand for housing.

This growth notwithstanding, the Latino community faces the threat of increasing foreclosures. Foreclosures tend to disproportionately affect minorities because of factors such as the large percentage of high-cost loans that are made in communities of color<sup>6</sup> and greater job separation rates in lower-paying professions, such as construction. The states with the highest increase between 2<sup>nd</sup> Quarter 2006 and 2007 in foreclosure starts are Florida, California, Arizona and Nevada,<sup>7</sup> all states with large Latino populations. One study predicts that 1 in 12 loans to Latinos will end in foreclosure.<sup>8</sup>

### **The Latino Homebuyer**

In 2004, CHCI released *Focus Group Findings: Cross Site Report*, a comprehensive study that identified barriers to homeownership that Latinos face and highlighted practices that are effective

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<sup>4</sup> Becerra, A. (2007, September). *The potential of Hispanic homeownership: Challenges and opportunities*. Washington, DC: National Association of Hispanic Real Estate Professionals.

<sup>5</sup> Joint Center for Housing Studies of Harvard University. (2007). *The state of the nation's housing 2007*. Cambridge, MA: Harvard University.

<sup>6</sup> Center for Responsible Lending. (2006, September). *Losing ground: Subprime locations: Patterns of geographic disparity in subprime lending*. Washington, DC: Center for Responsible Lending.

<sup>7</sup> Calculated from Mortgage Bankers' Association's National Delinquency Survey data for 2<sup>nd</sup> Quarters of 2006 and 2007.

<sup>8</sup> Schloemer, E., Li, W., Ernst, K., & Keest, K. (2006, December). *Losing ground: Foreclosures in the Subprime market and their cost to homeowners*. Washington, DC: Center For Responsible Lending.

in increasing Latino homeownership. This report provided insight into the consumer profile of the Latino homebuyer, revealing that “There is no consistent or systematic way in which Latinos access information about homeownership opportunities or assistance in taking advantage of those opportunities.” The report continues, “Word of mouth is the dominant means by which Latinos obtain information about homeownership.” The 2007 focus group participants confirm the validity of this data.

The significant barriers to homeownership faced by Latinos are unique to their borrowing profiles. Many are self-employed, earn undocumented cash income or boarder income (funds from renters living in their home), have little or no credit history, are multiple-wage earners and have savings methods that ignore U.S. banking systems. In addition, cultural practices, many stemming from Latin American countries of origin, dictate patterns that contribute to the multifaceted vulnerability and unique needs of Latinos, further increasing the obstacles and the need for access and availability of lending flexibilities to attain homeownership.<sup>9</sup>

Vulnerability is greater in the post-purchase stage when borrowers default in their mortgage payments. Participants in the 2007 focus groups reported that Latinos fail to seek help because of denial, fear, shame, language barriers and ignorance. The absence of a “consistent or systematic way to access information”<sup>10</sup> and assistance among Latinos becomes even more evident to both consumers and practitioners when they are forced to explore options to prevent foreclosure.

Among numerous demonstrations of need, requests for assistance and proposals for solutions, parties involved found it increasingly difficult for borrowers to qualify for loans as a result of

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<sup>9</sup> U.S. Department of Housing and Urban Development. (2006, March). *Improving homeownership opportunities for Hispanic families*. Washington, DC: HUD.

<sup>10</sup> The Congressional Hispanic Caucus Institute. (2004, June). *Focus group findings: Cross site report*. Washington DC: Congressional Hispanic Caucus Institute.

tightened underwriting standards. The flexibilities available to borrowers have been restricted, eliminated or made less accessible. These trends will have serious implications for all borrowers, particularly Latino borrowers.

## **FOCUS GROUP FINDINGS**

Focus group participants all perceived that foreclosures were increasing in their communities. In one instance, a participant cited that Latino customers in many cases find themselves in foreclosure “with their homes sold out from underneath them” before they were even aware that the process was underway. Some factors they identified as causes for this increase were familial changes, deteriorating regional economies, lack of knowledge by consumers about sustainable homeownership and predatory or unscrupulous practices by some lenders and brokers. Although these factors are consistent with reported national trends, they have greater impact on the Latino population because of distinct characteristics of the Latino consumer profile. As a result, addressing foreclosure among Latinos will be imperative for the long-term financial stability of the community.

### **Lending Flexibility**

Lending products continue to be the focus of debate because they are both a cause of the recent foreclosure crisis and a potential solution for assisting borrowers in default. A good loan product in combination with appropriate counseling can potentially ensure the achievement of sustainable homeownership. In pinpointing the crucial role that lending products play in this issue, facilitators requested that participants focus on solutions specifically related to lending products and underwriting guidelines. Facilitators asked participants to differentiate among

lending products, flexibilities and/or characteristics that were beneficial or detrimental to the Latino community.

Based on their experience, participants cited that Latinos have historically used products with characteristics outside of the conventional model. These include Federal Housing Authority loans, loans with guidelines that allow high loan-to-value ratios, or loans requiring little or no down payment. Participants reinforced the need for flexible underwriting guidelines, including nonstandard means for determining income, alternative credit use, community lending products, down-payment assistance and verified cash income. They described how these products played a significant role in allowing more Latinos to buy a home. Additional recommendations included gradual payment increases and interest rate caps for adjustable-rate mortgages (ARMs) as well as making private mortgage insurance tax deductibility permanent. One study found that Latino homebuyers were more likely to use expensive products and were far more prone to the use of mortgage brokers than most borrowers.<sup>11</sup> Products such as those not requiring documentation or stated income regardless of the client's employment status and "teaser rate" loans that reset with substantially higher payments in the short term are least likely to serve the needs of the Latino homebuyer.

Regardless of real or perceived characteristics of lending products and their effects on the Latino community, participants expressed trepidation about the consequences of the elimination of lending-product flexibilities. This elimination or reduction of lending products and product flexibilities would reduce options for Latino borrowers. Participants stressed that lending

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<sup>11</sup> National Council of La Raza. (2005, May). *Jeopardizing Hispanic homeownership: Predatory practices in the homebuying market*. Washington, D.C.: National Council of LaRaza.

products themselves are not the root of the problem. Participants instead identified the *abuse* of these products as contributing to the crisis. A more effective analysis examines specific scenarios involving the misuse of products, including overstating income to qualify for a home rather than verifying undocumented earned income as well as placing borrowers in products whose future payments they cannot afford.

Many significant conclusions can be inferred from the experiences and opinions expressed by focus group participants. Among these is the importance of making a clear distinction between the use of stated income products with no requirement to verify the borrowers' ability to pay and products whose underwriting guidelines allow the borrowers to include actual earned cash income to prove their true buying power. These guidelines for verification are essential in the market to meet the needs of small business owners, daycare providers and others whose professions are dependent on tips and other forms of cash income. The preservation of stated income does not imply that its previous negligent use should continue. It does, however, serve as a recommendation to protect its use under carefully designed underwriting models.

While Latinos who need flexibilities cannot verify cash income using traditional documentation preferred by lenders, underwriters can allow borrowers to state a portion of the income they earn in cash. This portion can be verified using a "common sense" approach, thereby eliminating the practice of stating income with no questions asked. For example, underwriters can ensure that borrowers are employed in industries where cash income is the norm by verifying a recurring pattern of cash flow through bank statements. While these manual underwriting practices do not subscribe to the streamlined underwriting model preferred in the industry, they both serve the

needs of the Latino borrowers and minimize risk for lending institutions offering these flexibilities.

Further evidence of the effectiveness of underwriting allowances for Latino borrowers is exemplified by entities such as the Hispanic National Mortgage Association and Neighborhood Housing Services of America. These organizations each utilize special automated underwriting models customized to address the needs of the Latino borrower. While these programs offer traditional 30-year fixed loans to clients who qualify, flexible underwriting allowances characteristic of the Latino borrower profile such as multiple sources of income from one borrower, boarder income, seasonal income, 5/1 ARMs, no credit and alternative credit are all built into this automated underwriting model.

While these models are not new, they are scarcely used in mainstream lending and not readily available to all borrowers who would benefit from their use. Flexible underwriting allowances are especially important in the context of foreclosure. These products are key components toward assisting Latino borrowers in distress as well as protecting future borrowers from products that threaten their financial security. Housing industry professionals must work together to find the right combination of accessibility and flexibility in existing and future products without eradicating products from the market.

### **The “Trusted Advisor”**

The mortgage process is a labyrinth for consumers to maneuver both during pre-purchase and while in homeownership. Professionals play a vital role in achieving and sustaining

homeownership. Among other responsibilities, the key parties in the mortgage process—including real estate agents, appraisers, lenders, brokers, counselors and home inspectors—each have an important fiduciary obligation to the homeowner. Among these professionals, focus group participants disagreed about the identity of the trusted advisor.

According to the aforementioned characteristics of the Latino homeowner, homeownership services are sought based on referrals from social networks. Referrals from within these sources are perceived among Latinos in a given community to be legitimate according to cultural practices. As a result, the trusted advisor for Latinos in the homebuying process can be any type of housing professional who gains a client through reputation and referral. Participants described this professional as a non-threatening ally with cultural understanding who professes to make the clients' dreams of homeownership a reality. A general consensus of participants was that the real estate agent is the first point of contact for Latinos in the homebuying process. As the first point of contact, the real estate agent often becomes the trusted advisor. One participant stated that this is so much the case that he continues to receive calls for years about property-related issues such as home maintenance.

One participant wished to highlight the huge amount of trust that Latinos place in individuals that “broker their mortgage deals and create their loan packages,” stating, “Many deals account by word of mouth and reputation.” They stress that in serving clients in their respective professional capacities financial service educators and providers find that Latinos are often initially confused by the conflicting information potential homebuyers obtain about the homeownership process. Latino consumers seek information and advice from friends and family

they consider knowledgeable, such as lenders and real estate agents they know, professionals that advertise their services through various media outlets and through community organizations.<sup>12</sup>

Participants cited that regardless of the source of information and assistance, a singularly important factor among Latinos is that it come from “people they can trust.”

Participants affirmed that as the trusted advisor for Latinos in most cases, real estate agents often choose to educate clients about the homeownership process themselves. The nature of the structure of the housing industry promotes disjuncture between real estate agents and housing counselors. As a result, real estate agents who cater to Latino clients are in a unique position, given their occupational responsibilities and obligations to the client. To resolve this, some participants create customized informational packets based on materials and tools they have come across in their work, including Internet services and paper resources. Real estate agents also believe it is important “to spend the necessary time with clients to ensure that they understand the process.” One participant added, “As long as it takes.”

The majority of participants, regardless of the professional’s role in the process, stated that Latino clients still seek bilingual professionals. Participants state that among bilingual clients, Spanish is the predominant language of choice, even when services are available in both English and Spanish. With the exception of few, financial service providers present all documentation to clients in English. They maintain that often, business must be conducted in Spanish in order for the client to understand the process. In one instance, a real estate agent spoke of the difficulty presented by language in the industry, stating, “We can translate the concepts, and we have, but

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<sup>12</sup> The Congressional Hispanic Caucus Institute. (2004, June). *Focus group findings: Cross site report*. Washington DC: Congressional Hispanic Caucus Institute.

the meaning is not the same as in English.” When asked about standardized formal disclosures and documents available in Spanish, many professionals profess to have little or no access to these resources or no previous knowledge that they exist.

Real estate agents who participated in the focus groups expressed a general lack of information about the function of housing counselors. One participant noted, “We as professionals don’t know of any entities that we can direct our clients to.” Often, agents look toward lenders; one participant stated, “As a realtor, we usually have lender partners that we work with (to provide financial literacy education).” Because real estate agents, brokers and lenders all have a vested interest in the outcome of the transaction that doesn’t necessary coincide with that of the consumer, the education and counseling should come from a neutral third party. The role of the trusted advisor is that of the housing counselor.

Not only are housing counselors a neutral party to the Latino consumer, they are experienced and knowledgeable about the entire homeownership process. Counselors are better equipped to objectively serve the needs of the Latino client. An obvious lack of cooperation and communication exists between housing counselors and industry players. Housing counselors that participated in focus groups reported feeling excluded from the process by agents and lenders when helping clients. As counselors perceive agents’ reluctance to partner with local housing counseling agencies, agents expressed misgivings toward counselors. Real estate agents felt a consumer may be steered away if the consumer is to seek financial education or counseling from a source outside of their network. Housing counselors have the unique capability to objectively

inform consumers as to how to buy and keep a home. As one housing counselor stated, “Our sole purpose is to serve the best interests of the consumer.”

According to participants, and as demonstrated by the ongoing crisis, now more than ever there is a need for housing counselors to fulfill the role of trusted advisors. Several factors reported by participants support this reality. As a result of the aforementioned trend of Latino homebuyers identifying real estate agents as their first point of contact into the market, their first instinct is to return to the real estate agent for assistance and advice when in delinquency or facing foreclosure. Real estate agents, by their own admission, are unaware of the best methods of foreclosure prevention and intervention and are uninformed of loss mitigation options that might keep the homeowner in the home. These options include loan modification, refinance, forbearance and work-out plans. In most cases, real estate agents offered only one option to the Latino homeowner in default—a short sale. Most Latino homeowners in default never receive the adequate and timely assistance they needed to save their home.

Housing counselors lament that existing tools to help Latino homeowners in distress are not reaching them in time. This is due largely in part to the low profile of housing counseling agencies in the Latino community. Housing counselors expressed that an increase in funding would increase access to clients and facilitate greater visibility among Latino communities. Participants reported feedback from consumers at critical stages in the foreclosure process who wished they had known of available services sooner. Stated one participant, “If I had only known of your existence, I would have pursued counseling sooner.” The window of opportunity to save a client in danger of foreclosure is short, particularly in states that do not have judicial

procedures as part of the foreclosure process, such as Texas, Nevada and California. It is critical that Latino homeowners have access to foreclosure prevention resources and tools. Participants express that if Latino homeowners could obtain the appropriate assistance quickly and efficiently, foreclosure rates among Latinos would greatly decrease. Participants stressed that as long as Latino homeowners continue to return to their first point of contact for help, outreach will be unsuccessful.

As participants suggested, the only way for Latino borrowers in trouble to take advantage of the limited time available to seek help in the midst of and preceding foreclosure is for the institution of a referral system between real estate agents, clients and counselors. This system would not be difficult to accept culturally, because Latinos are accustomed to relying on word-of-mouth recommendations. A strengthened partnership among real estate agents and lenders as well as housing counselors would ensure that the needs of the Latino borrower are met before reaching a “point of no return.” Housing counselors are able to prepare homeowners for sustainable homeownership through comprehensive education and support. Developing strong partnerships among all housing professionals at the local, state and national level will help to ensure that the Latino borrower is best served.

### **Abusive Practices**

Focus group participants expressed concern that some professionals in the housing industry prey on Latino consumers and their unique situations. They report cases in which the unscrupulous behavior of professionals has taken advantage of Latinos and express a desire to somehow “report” these “bad actors” throughout the industry. One participant spoke of a “call to ethical standards” and suggested that efforts to expand the practice of licensing among lenders and real

estate professionals might help to increase barriers to entry and deter unqualified actors. Participants noted that even if the reputations of “bad actors” are known, they are wary of bringing these people to the attention of state or national entities in fear of the potential professional ramifications of such actions. Participants expressed the need for the creation of an entity that functions like the Better Business Bureau, where both consumers and practitioners can anonymously report the unethical behavior of individuals.

## **CONCLUSION**

The Latino community has benefited significantly over the last several years as homeownership rates have increased. However, the nature and vulnerability of the Latino consumer and the danger of foreclosure threatens to undermine the progress the community has made. The focus groups held jointly by CHCI and NeighborWorks® America supplied evidence that real estate agents, counselors, mortgage brokers and lenders in the field across the country have seen impacts that foreclosures have had in their local communities.

Focus groups consistently pointed to the importance of flexibility in loan products and underwriting to the Latino community. Allowing nonstandard means for determining income, alternative credit use, down-payment assistance and verified cash income are necessary for the continued growth of homeownership among Latinos. The tightening of credit in reaction to increased foreclosures threatens the availability of the loan products Latino communities need. As more homeowners become delinquent in their mortgage payments, maintaining flexible standards will help to mitigate the impact on Latino communities and keep homeownership rates from declining. While greater risk may be involved when maintaining product flexibility, housing counseling provided by a trained professional—particularly counseling that meets the

National Industry Standard for Homeownership Education and Counseling<sup>13</sup>—will reduce this risk and help to ensure sustained homeownership.

Given the reliance that consumers place on real estate professionals, particularly real estate agents, greater understanding of the options available to distressed homeowners is needed to assure homeownership is sustainable.

From determining readiness to helping homeowners that are delinquent on their mortgages, housing counselors are in the best position to serve as the trusted advisor for homeowners. Housing counselors are neutral parties who need only serve the interests of the client. To prevent dishonest or predatory behavior among professionals, the development of an anonymous reporting system to hold individuals accountable is necessary. The Better Business Bureau offers a possible model.

To ensure that the needs of Latino clients are met and the integrity of the homebuying industry is upheld, collaborative solutions to foreclosure must be sought. Partnership among housing counseling agencies and real estate agents, mortgage brokers and lenders is essential to support sustainable homeownership in Latino communities.

## **RECOMMENDATIONS**

- Lenders should be encouraged to continue the use of flexible underwriting methods coupled with the homeownership education provided by a trained professional.

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<sup>13</sup> The National Industry Standard for Homeownership Education and Counseling is a voluntary set of guidelines for the homeownership education and counseling industry. [www.homeownershipstandards.com](http://www.homeownershipstandards.com)

- Leaders in the Latino housing community should facilitate communication between real estate professionals and housing counseling organizations to discuss how counseling can help homebuyers obtain and maintain homeownership.
- The development of a system that allows professionals and consumers to anonymously report unethical acts is necessary to protect consumers.

## **APPENDIX**

### **Focus Group Questions**

#### **Availability of and Access to Mortgage Products**

In your experience serving the Latino community, what type of mortgage products does this community regularly use?

What elements in the current available lending products cause you the most concern? What elements are you seeing in the market that cause foreclosure?

Which products are most sustainable? What products do you suggest to Latinos to use to refinance?

What percentage of those clients looking to refinance as a solution to foreclosure are able to do so? What programs or products are most effective in refinancing Latino families? Of those that cannot refinance, what are the top reasons?

As financial service providers, are you seeing/using mortgage products that specifically address the unique needs of the Latino community? If so, are these products available nationally, regionally, locally?

What products/flexibilities would you like to see more readily available to Latino families (i.e. boarder income, cash verification ...)?

What specific flexible underwriting guidelines, if any, would Latinos most benefit from as they try to purchase or refinance their home (is. High LTV, flexible DTI ratios, flexible income and employment histories)?

As a lending professional, what effect will the tightening underwriting standards have on Latino families?

As financial service providers, are you seeing/using mortgage products that specifically address the unique needs of the Latino community? If so, are these products available nationally, regionally, or locally?

What are the current proposed solutions to foreclosure prevention, especially for clients already delinquent? Do you think the solutions we have identified are realistic and effective? Why or why not?

#### **Who Is the Trusted Advisor?**

When potential homebuyers approach you, especially first-time homebuyers, do you have a screening process?

- Inquire about their knowledge in process

- Recommend counseling and/or a financial literacy class
- Ask if they are prequalified
- Refer them to other financial service providers (lenders/realtors, title insurance)
- Handle clients that are not ready

For those clients that are defaulting on a loan, what are the top reasons (if not mentioned, bring up affordability)?

When clients contact you, are you their first, second or third point of contact?

What recommendations, if any, do you give to these delinquent clients?

What type of mortgage products do you see more often? Do these products vary for Latino families?

Do you work closely with lenders during mortgage approval process? How involved are you? Lenders: How involved do you feel real estate agents are?

What is the role of housing counselors in providing financial literacy education, both in the pre- and post-purchase process?